FISCAL NOTE

Bill #:	SB0520	**Title:**	Revise income taxes; residential property tax rebate; rates; cap. gains freeze
Primary Sponsor:	Elliott, J	**Status:**	As Introduced

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$69,557	$104,072
Revenue:		
General Fund	$14,579,000	($1,383,000)
State Special Revenue	$24,000	$24,000
Net Impact on General Fund Balance:	$14,509,443	($1,487,072)

- ☐ Significant Local Gov. Impact
- ☐ Included in the Executive Budget
- ☐ Dedicated Revenue Form Attached
- ☐ Technical Concerns
- ☒ Significant Long-Term Impacts
- ☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. This bill is effective July 1, 2005; and applies to tax years beginning after December 31, 2004 (tax year 2005 and thereafter).

RESIDENTIAL PROPERTY TAX

2. This bill provides for a rebate of residential property taxes to qualifying homeowners, and rent-equivalent taxes for qualifying renters, up to a maximum rebate of $135. The rebate is not a one-time rebate, but is provided to taxpayers every year. In order to qualify for the rebate, the taxpayer must be an individual who resides in Montana for at least 9 months of the year and occupies the individual's principal residence for at least 6 months of the year.
3. For homeowner households, the rebate applies only to Montana *ad valorem* property taxes, and not to the portion of a property tax bill related to any fees levied by various local taxing jurisdictions.
4. For renter households, "rent-equivalent taxes" is defined as 15% of the gross rent of the principal residence.

5. The rebate must be claimed as a *refundable* credit against individual income taxes. The rebate associated with tax year 2005 property taxes will be claimed on tax returns filed in FY 2006. The rebate associated with tax year 2006 property taxes will be claimed on tax returns filed in FY 2007.
6. Based on U.S. Census Bureau data and an examination of the Department of Revenue MODS files, it is estimated that in tax year 2005 there will be 365,680 properties eligible for the rebate. The number of properties eligible for the rebate will grow at a rate of 2% per year, resulting in 372,994 properties in tax year 2006 and 380,453 properties in tax year 2007 that will be eligible for the rebate.
7. All of the properties eligible to receive the rebate will get the rebate. This reduces general fund revenue by $49.367 million in FY 2006 and $50.354 million in FY 2007.

INDIVIDUAL INCOME TAX

8. This bill modifies several current law provisions pertaining to Montana's individual income tax. First, the bill changes the current law tax rate structure, which provides for tax rates ranging from 1% to 6.9% on taxable income in excess of $13,900; to a structure that provides for tax rates ranging from 1% to 7.8% on taxable incomes in excess of $24,000, beginning with tax year 2005. The change in the tax rate structure provided for in this bill is illustrated in the following chart:

TAX YEAR 2005

CURRENT LAW TAX RATE TABLE

Taxable Income Bracket			Tax Rate
$ -	to	$ 2,300	1%
$ 2,300	to	$ 4,100	2%
$ 4,100	to	$ 6,200	3%
$ 6,200	to	$ 8,400	4%
$ 8,400	to	$ 10,800	5%
$ 10,800	to	$ 13,900	6%
$ 13,900	and over		6.9%

SB520 PROPOSED LAW TAX RATE TABLE

Taxable Income Bracket			Tax Rate
$ -	to	$ 2,300	1%
$ 2,300	to	$ 4,100	2%
$ 4,100	to	$ 6,200	3%
$ 6,200	to	$ 8,400	4%
$ 8,400	to	$ 11,000	5%
$ 11,000	to	$ 16,000	6%
$ 16,000	to	$ 24,000	7%
$ 24,000	and over		7.8%

9. Under current law, individual income taxpayers are allowed a tax credit equal to 1% of net positive capital gains income in tax years 2005 and 2006; this credit increases to 2% of net positive capital gains in tax year 2007 and for all tax years thereafter. Under this bill, the capital gains tax credit is maintained at 1% for all tax years.
10. Changing the rate structure and holding the capital gains tax credit constant at 1% per year is estimated to increase full-year resident individual income tax liability by $33.211 million in tax year 2005; by $32.825 million in tax year 2006; and by $41.075 million in tax year 2007.
11. The Department of Revenue will adjust withholding tables to accommodate the increase in tax liability July 1, 2005. This results in all of the increase in tax liability associated with tax year 2005 occurring as revenue in FY 2006. In addition, increases in withholding and quarterly estimated tax payments stemming from changes to the withholding table and taxpayer adjustments for the period January 1, 2006 to June 30, 2006 also increases FY 2006 collections. As a result it is estimated that total general fund collections will increase by $61.531 million in FY 2006, and by $46.556 million in FY 2007.
12. Under current law, elderly homeowners and renters are allowed a refundable credit against individual income tax of up to $1,000 for property taxes or rent-equivalent taxes paid during the tax year. This bill amends 15-30-176, MCA to provide that taxpayers must reduce the credit provided for in this section by the amount of any rebate applied for.

13. All current elderly homeowner/renter credit program participants will qualify for and apply for the rebate provided for in this bill. This will reduce the current law elderly/homeowner credit claimed (increase general fund revenue) by $2.415 million each fiscal year, beginning with FY 2006.
14. Section 3 of the bill provides for a new individual income tax voluntary checkoff that would allow taxpayers entitled to a refund of individual income taxes to contribute to the school guarantee account provided for in 20-9-622, MCA. Based on the average activity of current law checkoffs, it is estimated that taxpayers will contribute $24,000 a year to the new checkoff created in this bill.
15. The Department of Revenue employs a selective audit technique to target the returns that are audited. Although the anticipated credit would only be approximately $135, the population base would be very large - approximately 450,000 and the credit would be approximately $50 million dollars each year. It is determined that 3 FTE (see below) would be necessary for the resulting sampling, cross-matches, etc. to ensure that there would not be excessive abuse of this credit. This legislation is effective for tax years beginning after December 31, 2004; therefore the credit would first be reported on returns filed in FY 2006. It is anticipated that 3 FTE would be necessary for ½ of the year for FY 2006 and for the full year for FY 2007.
16. The net effect of the property tax rebate, the changes in income tax structure, and offset to elderly homeowner/renter credits will be $14.579 *more* general fund revenue in FY 2006 (-$49.367 million + $61.531 million + $2.415 million) and $1.383 million **less** general fund revenue in FY 2007 (-$50.354 million + $46.556 million + $2.415 million).

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
FTE	3	3
Expenditures:		
Personal Services	$46,311	$92,330
Operating Expenses	$5,846	$11,742
Equipment	$17,400	$0
TOTAL	$69,557	$104,072
Funding of Expenditures:		
General Fund (01)	$69,557	$104,072
Revenues:		
General Fund (01)	$14,579,000	($1,383,000)
State Special Revenue (02)	$24,000	$24,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	$14,509,443	($1,487,072)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
None.

LONG-RANGE IMPACTS:
Under this bill, individual income tax collections are forecast to increase by $52.156 million in FY 2008. The property tax rebate provided for in the bill will result in a general fund reduction of $51.361 million. This results in a net increase in general fund revenue in FY 2008 of $795,000. This proposal is approximately revenue neutral in future fiscal years.